STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Washington; Appropriations; General Obligation

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Washington; Appropriations; General Obligation

Credit Profile		
US$497.8 mil var purpose GO bnds ser 2016A-1A-2 due 08/01/2040		
Long Term Rating	AA+/Stable	New
US$193.8 mil var purpose GO rfdg bnds ser R-2016A due 07/01/2024		
Long Term Rating	AA+/Stable	New
US$192.0 mil motor vehicle fuel tax GO bnds ser 2016B due 08/01/2040		
Long Term Rating	AA+/Stable	New
US$60.7 mil GO bnds ser 2016T due 08/01/2022		
Long Term Rating	AA+/Stable	New
Washington GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to the state of Washington's:

- $497.8 million various purpose general obligation (GO) bonds, series 2016A-1 and A-2;
- $192 million motor vehicle fuel tax (MVFT) GO bonds, series 2016B;
- $60.7 million GO bonds, series 2016T (taxable); and
- $193.8 million MVFT GO refunding bonds, series R-2016A.

At the same time, we affirmed our 'AA+' long-term rating and underlying rating (SPUR) on the state's existing GO and MVFT GO debt. The outlook on all long-term ratings is stable.

The ratings reflect our view of the state's:

- Relatively well-educated workforce and good income indicators;
- Sales tax-based revenue structure that, although somewhat less sensitive to economic cycles than income tax-reliant states, is following a decades-long stagnating trajectory as a share of total personal income;
- High cost of housing, especially in key economic centers that could impede longer-term growth prospects;
- Good internal access to sources of liquidity;
- Strong financial policies and practices, including statutory provisions requiring that the state's biennial budget and projected subsequent two fiscal years' spending plans be balanced; and
- Moderately high per capita debt burden but well-funded pension plans.

The state's full faith, credit, and taxing powers secure the state's GO bonds. The state's MVFT GO bonds are first payable from state excise taxes on motor vehicle and special fuels. The refunding GO bonds are being issued to refinance some of the state's existing debt.

The state will have a total of $19.04 billion of GO bonds outstanding after the current offering. Of this, $7.43 billion of the state's GO debt is payable first from excise taxes on motor vehicles and special fuels or from toll revenue. The state also has $965.4 million of certificates of participation (COPs) and other appropriation-backed debt outstanding. Of this,

$74 million is GO debt of various local agencies within the state and is a contingent obligation of the state government in the event of nonpayment by a local government agency.

In January 2015, as the state approached the fiscal 2015-2017 budget biennium, its projected baseline revenue growth of about $2.8 billion was only a bit shy of its underlying baseline expenditure growth ($3.0 billion). But the state nonetheless faced considerable fiscal pressures. Not least was the State Supreme Court's 2012 decision (the McCleary ruling) that deemed that the state has systematically underfunded its public education system. State officials estimated that complying with the court's finding under McCleary would add $1.2 billion to the 2015-2017 budget. In addition, voters in November 2014 passed a class-size reduction measure (I-1351) that would add another $2.0 billion in expenditures to the biennium. With the addition of other growing cost pressures (for health treatment of the mentally ill and collective bargaining allotments for employee pay), the state confronted a total shortfall estimated at $4.45 billion.

Faced with a projected gap between expected resources and the state's funding needs in excess of 11% of the two-year budget, we anticipated that lawmakers would experience a difficult negotiating process. And in fact, reaching agreement on the state's $38 billion two-year general fund budget did require two special sessions following its regular legislative session. In the end, the enacted budget package added $4.4 billion in spending, with a significant portion ($1.3 billion) going to address the court's mandate under the McCleary decision. The budget also included funding increases for mental health services ($98 million), increased compensation for in-home care workers ($115 million), and some pay increases for state employees ($173 million). Notably, and in contrast to many other states, Washington also added $293 million to its higher education system budget, allowing for modest tuition relief for the state's college students. The legislature shrunk the size of the projected fiscal gap by $2.0 billion by deferring implementation of the class-size reduction initiative (I-1351), which required a two-thirds majority.

Initially, state officials anticipated that in order to accommodate the additional funding pressures, especially those stemming from the McCleary ruling, significant new tax revenue would be necessary. But an accelerating economy improved the state's revenue outlook and would go on to solve a significant portion of the projected shortfall. According to the enacted budget, 73% of the additional spending is paid for by the state's forecast for $3.2 billion in revenue growth through the 2015-2017 biennium. The state also generates about $216 million in revenue from increasing some smaller taxes and by eliminating some tax exemptions. While we view directing the new revenue growth to fill the gap as consistent with a structurally aligned approach, the state did employ some one-time measures as well. Overall, approximately one-quarter (roughly $1 billion) of the projected budget gap was covered with nonrecurring measures. Most significantly, the state utilized $910 million from its beginning fund balance.

Notwithstanding that the 2015-2017 budget approved a withdrawal from the general fund beginning balance, the state adhered to its policy of depositing 1% of general fund revenues to its budget stabilization account (BSA). Therefore, despite using a portion of its general fund balance, the state's BSA is projected to increase to $894.1 million at the end of the biennium from $513 million at the end of fiscal 2015. On a projected basis, the general fund balance combined with the BSA will sum to $1.2 billion, or 3.2% of expenditures, which we view as adequate. On an annualized basis, which is more comparable to other states, however, the budget includes general fund and BSA balances totaling $2.0 billion in fiscal 2016, equal to a strong 7.2% of state general fund expenditures budgeted for the year. (Estimated results for fiscal 2015 were similarly strong, with general fund and BSA balances equaling 8.5% of state general fund expenditures.)

Washington lawmakers passed a $0.07 per gallon fuel tax increase (effective Aug. 1, 2015) with another $0.049 increase scheduled to take effect July 1, 2016 (bringing the total to $0.494 per gallon). The state projects that the new taxes will add $649 million to the state's transportation revenues for the 2015-2017 biennium, which is equal to 7.3% of total transportation revenues and resources for the period (including federal sources). Although multiple-year transportation capital projects from 2003 and 2005 are winding down, the state's transportation capital budget is still large at $4.6 billion in the 2015-2017 biennium (down $600 million from the prior biennium).

Washington's economy has sustained above-average rates of growth with real GDP expanding at 3.0% in 2014, outpacing the nation (2.4%). For the 12 months through July 2015, Washington's payroll jobs increased 3.3%, well ahead of the national 2.1% growth rate. Job growth in the state has been faster than what its Economic and Revenue Forecast Council (ERFC) anticipated, leading them to raise their forecast. The ERFC now anticipates 3.0% job growth in 2015, up from the 2.6% rate of increase it projected in June. The ERFC expects lower oil prices and faster-than-expected job growth to help Washington sustain momentum and modestly outpace the nation. This is consistent with our view, in which we project the state's real GDP will grow at 3.5% in 2015 (based on IHS Connect's modeling), which would be considerably faster than what we anticipate for the nation (2.6%).

Growth rates in 2015 are also consistent with recent trends. In 2013, for example, real state GDP expanded at a 2.3% rate, well ahead of the national growth rate of 1.9%. Washington's outperformance relative to the nation continued in 2014, when real GDP growth was 3.0% versus 2.2% for the U.S.

Looking further ahead, however, state GDP growth may subside to a lower 2.5% to 2.7% through 2018, which would be a bit below the 2.9% to 3.1% rate at which we expect national output to expand during those years. Among the factors contributing to the leveling off of the state's economic growth is its exposure to Boeing, which downsized its workforce by 2,300 in 2013 and recently announced plans to move 4,300 jobs out of the state. As the largest employer in the state (81,939 employees), Boeing's activities have an outsized effect due in part to its numerous suppliers. There are approximately 1,350 aerospace-related firms with more than 132,500 employees in the state. Boeing's workforce reductions contribute to somewhat softer employment trends in the manufacturing sector, which has increased 1.2% year-over-year through July. Sectors leading the job growth have been construction (9.1%), trade, transportation, and utilities (3.4%), financial activities (5.0%), and leisure and hospitality (3.3%).

Washington was ahead of the nation in recovering all of the jobs it lost during the Great Recession. Whereas it took until May 2014 for the nation to recover the 8.7 million jobs it lost during the recession, Washington restored its 186,000 lost jobs by October 2013. Overall, after experiencing a 6.2% decrease in total payroll jobs from March 2008 through February 2010, the state has gone on to add back 358,400 jobs, a 12.7% increase from the low point. And although it has tended to hover a bit higher than the nation, Washington's unemployment rate, at 5.3% as of July 2015, is now in line with the nation.

Housing starts in the first quarter of 2015 were deemed by the ERFC to be unsustainably high—at a 53,600 seasonally adjusted annual rate (SAAR) of unit formation. They subsided to 36,800 SAAR, roughly in line with the June forecast, which had projected 37,400. Even at these somewhat lower, but more sustainable levels, as measured by both housing starts and prices, Washington's housing market is robust. According to the S&P/Case-Shiller Home Price Index (seasonally adjusted), home prices in the Seattle metro area increased 6.3% in the 12 months through October 2014, which was slightly higher than the 4.5% increase for the 20-city composite index. Prices are also 28% above the trough they reached in November 2011.

To the benefit of the state's credit quality, the legislature has taken a more structural approach to crafting fiscal policy in recent years, in our view. A key reason in our view is a 2012 statute requiring the state to enact a budget that it projects will remain balanced through four fiscal years. The 2015-2017 budget biennium process did not exclude costs associated with the McCleary decision, unlike the 2013-2015 biennium. In our view, inclusion of some of the state's prominent fiscal challenges in this projection is favorable from a credit implication perspective.

In general, Washington's approach to financial management is strong, in our view, as reflected in our Financial Management Assessment and budget management scores. Well-established economic and revenue forecasting and increasingly refined debt management practices and oversight served the state's credit quality well during the recession and its aftermath. Forward-looking state policies facilitate budget practices we view as prudent, including minimal reliance on payment deferrals or other one-time responses to anticipated budget gaps.

For August 2015, the state treasury and treasurer's trust fund's month-end cash balance was $3.8 billion, down somewhat from the $4.3 billion at the same point in 2014. Investments are conservative, in our view, with an average of 73.7% of funds invested in U.S. Treasurys and agencies in July 2015. In addition to the state's investment guidelines, state policies require that collateral in repurchase agreements (of which the state currently has none) for U.S. Treasury, agency, and money market instruments be priced at 102% of market value. Mortgage-backed repurchase agreements of more than seven days are subject to a higher, 105% requirement.

As of the end of fiscal 2014, the state's gross direct tax-supported debt burden was $19.9 billion in GO and appropriation-backed bonds outstanding but a somewhat lower $18.1 billion when accounting for self-supported debt. Tax-supported debt was moderately high, in our opinion, at $2,564 per capita (based on the U.S. Census 2014 state population of 7.1 million), 5.2% of total personal income (2014), and 4.2% of state gross domestic product (2014).

Long-term state liabilities include those related to the state's pension system and retiree health care. As measured by the actuary, the state's pension liability profile has deteriorated somewhat as of its fiscal 2014 audited financial statements because of a change in the state actuary's mortality assumptions related to pension beneficiaries. In addition, the state has adjusted the discount rate applied to its liabilities to 7.8% from 7.9%. According to the fiscal 2014 comprehensive annual financial report, the aggregate actuarial accrued liability (AAL) of the defined-benefit portion of the state's 12 pension plans totaled $74.3 billion. Actuarial assets of $65.6 billion in aggregate accounted for 88.3% of the AAL.

Based on the most recent comprehensive annual financial report, in 2014 (reflecting actuarial data through fiscal 2013), the state's aggregated total unfunded actuarial accrued liability (UAAL) on a combined basis for its 12 pension plans was $8.7 billion, equal to $1,248 per capita (using 2013 U.S. Census population figures), which we view as moderate. Relative to total personal income, it was 2.7%, which is also moderate in our view. The state's contributions to the pension funds totaled $507 million in fiscal 2014 and equaled a low 2.0% of general fund expenditures (in practice, only about half of the annual pension contribution is paid from the state general fund). Although the state makes its required contributions to each plan as set forth in the plans' respective funding policies, contributions tend not to equal the annual required contributions (ARC). For fiscal year 2014, the total contributions from the state equaled 73% of the state's ARC.

Other postemployment benefits (OPEB) are funded on a pay-as-you-go basis. The state's OPEBs produce an implicit liability by allowing retired employees to purchase health, life, and vision insurance in the same pool as current employees at a subsidized rate.

Based on the analytic factors we evaluate for states, on a scale of 1 (strongest) to 4, we have revised the score on Washington to a composite '1.7' from '1.8'. The change reflects an improvement in our score for the state's economy and because, in our view, the state has a strong demonstrated track record of commitment to contributing to its budget stabilization account.

Outlook

The outlook is stable, reflecting that the state begins fiscal 2016 in a strong position--aided by above-forecast end-of-biennium revenue trends. Nevertheless, we anticipate that significant upward pressure on spending originating in legal- and voter-approved mandates will remain a soft point in the state's credit profile. However, legal requirements that the state enact budgets that not only balance for the current biennium but also project balance through the following biennium helps facilitate a structural approach. That, coupled with its ongoing discipline vis-à-vis funding its budget reserves should help insulate the state's rating from unanticipated economic or revenue weakening. Potential for upward movement would likely entail a more permanent fix to the state's education funding challenges and—potentially--revenue trends that better keep pace with the state's underlying economic growth rates.

Given that the state's previous projected budget gap was solved with stronger-than-expected revenues, downside pressure on the state's rating would likely have economic origins. Sustained weak demand for key state exports, fueled in part by a strong U.S. dollar, slower-than-expected growth from China, and a sharp falloff in the housing market could all contribute to such a scenario. State policymakers' response to a downside economic scenario--whether it's timely and structurally oriented--would likely dictate any impact on the state's rating. If lawmakers delayed taking corrective action or relied extensively on one-time solutions to mid-biennium budget gaps, allowing its reserve balances to decline precipitously, it could result in downward pressure on the state's rating.

Governmental Framework

The state's statutory requirement to adopt a balanced budget, when coupled with its financial management policies, encourages the state to manage toward ensuring its ongoing fiscal solvency. Legal protections for the state's GO debt include a specific constitutional requirement that the legislature make appropriations in the budget for the interest and principal installment payments on its debt. Although neither state statute nor the state constitution provide that debt service be a priority relative to other state payment obligations, no other payment obligation enjoys a specific requirement that an appropriation be made. This has the practical effect of providing debt service with a strong legal position among the state's various payment obligations, in our view.

The governor has authority to make across-the-board reductions to spending allotments when a cash deficit in a particular fund is projected. However, authority to impose disbursement reductions does not include allotments for basic education, pension benefits, or GO debt service. The state's office of financial management monitors and makes recommendations about cash management activities to the governor.

An active voter initiative environment complicates the state's governmental framework. We have viewed the active voter initiative environment as limiting the state's fiscal flexibility somewhat. However, the legislature's willingness and ability to set aside provisions of voter-approved initiatives when fiscal conditions warrant has proven beneficial to credit quality, in our view. (Initiatives may be amended with a two-thirds vote of the legislature within two years of passage and a simple majority of the legislature thereafter.) We noted, for instance, that during the 2011-2013 biennium and eight of the 14 preceding years to that biennium, the legislature temporarily suspended Initiatives 732 and 728 (for teacher cost-of-living salary increases and smaller class sizes, respectively). During the 2012 legislative session, the legislature repealed I-728 altogether. The legislature also suspended I-732 again for the 2013-2015 biennium and suspended features of I-1351 for the current biennium.

Similar to many other states, significant spending areas in the budget are largely nondiscretionary. The state estimates that as much as 66% of spending, primarily for K-12 education, Medicaid, foster care, debt service, and pensions, is effectively legally required by some combination of state constitution, statute, court decision, or federal mandate. In addition, Washington voters have, over the years, approved initiatives that have reduced the revenue and spending autonomy of the state.

During the 2011 legislative session, the legislature added a debt commission to the state's process of developing its debt affordability study. The debt commission evaluated the state's use of debt and made policy or constitutional change recommendations, including creation of a new constitutional debt limit. Given that Washington's debt levels are somewhat higher than other states, we believe steps to contain the growth of its debt burden could have favorable implications for the state's credit quality.

In 2012, the legislature put on the ballot, and the voters subsequently approved, a constitutional amendment related to the prior state debt limit. The amendment lowers the limit on the state's annual debt service to 8% of a six-year moving average of general fund revenue from 9% of a three-year moving average. Finally, in 2012, the legislature approved reducing early retirement benefits for newly hired employees in three state pension plans and began phasing in a reduction of the assumed rate of return for its pensions.

On a scale ranging from 1 (strongest) to 4, we have assigned a score of '1.7' to Washington's governmental framework.

Financial Management

Financial management assessment (FMA): "strong"

We consider the state's financial management practices "strong" under our FMA methodology. An FMA of strong indicates our view that practices are strong, well embedded, and likely sustainable. The state ERFC, which is made up of representatives appointed by the governor's office, both houses of the legislature, and both major political parties, as well as the state treasurer, produces an analytical report on economic and revenue performance each month and, by statute, presents quarterly revenue forecasts covering the current and upcoming biennium. The state uses the council's forecasts, which are based on a modified IHS Connect model of the U.S. economy, to set revenue parameters at biennial budget adoption. The state has a record of making budget adjustments within the biennium when the forecast council materially changes its projections. Beginning with the fiscal 2013-2015 biennium, state law required the legislature to balance not just the biennial budget, but also the spending and revenues anticipated for the subsequent two-year period. In addition, three times per year, the state convenes a Caseload Forecast Council, which forecasts service requirements in such areas as public assistance, state corrections, medical assistance, and K-12 education. The executive branch uses these forecasts, along with historical expenditures, to formulate budget proposals and mid-biennium revisions.

Further guiding budgeting decisions is a rolling, four-year general fund forecast maintained by the state's ERFC. The state uses these forecasts to quantify the timing and scope of potential deficits in the subsequent biennium and, in some cases, to begin to address structural imbalances before the next budget cycle begins. Although the state does not have a minimum reserve policy, the state constitution requires the state to set aside 1% of most unrestricted state revenues in each fiscal year into a budget-stabilization fund, a form of "rainy day" fund. That fund can be tapped under a provision allowing the state to draw on the fund when employment growth falls below 1%, in the event of a catastrophic emergency, or by a 60% supermajority vote of the legislature. When the fund reaches 10% of estimated general state revenues in that fiscal year, the state can also draw excess funds for education capital projects. In addition, in November 2011, voters approved a measure requiring that any revenue growth that exceeds by one-third the average biennial growth in state revenues during the prior five biennia be transferred to the budget-stabilization account.

Other policies and practices include:

- Capital spending that the state budgets for on a biennial schedule but plans on a rolling, 10-year basis and includes funding sources;
- A formal investment management policy that covers eligible investments, maximum maturities (10 years), allocations of nongovernment securities, and internal and external controls; and
- Debt management under an issuance policy that, among other elements, addresses refunding savings thresholds.

Budget management framework

Washington adheres to budget management practices we consider generally strong. Across different gubernatorial administrations, when confronted with projected budget gaps, the state's political leadership has demonstrated a willingness to consider difficult fiscal adjustments, including both expenditure and revenue measures. In addition, when deficits emerge mid-cycle, the state has generally responded with timely corrective actions. Revenue projections are apolitical and are developed according to the state's independent revenue forecasts. When deficits do emerge, however, the state tends to include nonrecurring measures among its solutions, and its updates to actual fiscal performance that include both revenue and spending trends are not regularly available at intra-year intervals.

On a scale ranging from 1 (strongest) to 4, we have assigned a score of '1.5' to Washington's financial management.

Economy

Washington's economy enjoys several fundamental strengths, including an above-average education level among its populace (31.8% of whom have bachelor's degree or higher versus 29.2% for the nation). Other positive features of the state's economy are its consistently strong population growth trends (1.34% 10-year compound average annual growth rate versus 0.86% for the U.S.), relatively low age-dependency ratio (57.6), good per capita gross state product (111% of the nation as of 2014), and good per capita incomes (107% of the U.S. for 2014). For 2014, unemployment stood at 6.2% in Washington, which was in alignment with the nation.

Economic development prospects remain good in our view. Boeing, the state's largest employer, is benefitting from the global recovery in passenger and cargo air traffic increases. The firm currently has an approximately seven-year backlog of orders for aircraft. However, the firm has nevertheless proceeded with workforce reductions due to increased operational efficiencies.

Washington continues to be a leading export state in the nation, helping diversify prospects for growth while somewhat insulating it from U.S. economic cycles. Being a heavy exporter-state also has a downside, however, by exposing the state's economy to fluctuations in economic performance from around the globe. After seeing its exports reach an all-time high in the fourth quarter of 2014 ($25.2 billion), which was 11.6% above the same period in 2013, they have subsequently slowed. Through the first five months of 2015, total exports were 0.8% below the same period in 2014. (Total exports reflect the combination of strong, 14.4% growth in transportation equipment--primarily Boeing planes--and everything else, which fell by 18.1%.)

High-paying jobs with both of the state's largest employers, Microsoft and Boeing, support the state's forecasts for a personal income growth rate in excess of that of the U.S. through the forecast's timeframe of 2019 despite a similar overall job growth rate. For example, the ERFC projects personal income growth rates of 5.1% and 5.0% (nominal) in 2015 and 2016 (calendar), respectively. Over time, state personal income has increased faster than overall state taxes, even after adjusting for various tax-rate changes. The ERFC reports that, from 1998-2014, the average annual growth rate in state tax revenues of 3.5% has lagged that for personal income, 4.8%. In our view, the divergence in the growth rates indicates relatively stronger economic activity among the higher value sectors in the state and partly reflects the fact that the state does not levy a personal income tax.

On a scale ranging from 1 (strongest) to 4, we have revised our score to '1.3' from '1.4' for Washington's economy. The revision reflects that Washington's rate of population growth has consistently outpaced that of the nation.

Budgetary Performance

Liquidity

Washington's liquidity has strengthened markedly. And although it is common that, in some months, for the state's general fund cash balances to fall into negative territory, they have done this much less so in recent months. For example, in August 2015 (fiscal 2016), the state's general fund cash balance was $12 million, up from a cash deficit of $710 million in August 2014 (and up significantly from large cash deficit positions of over $1 billion during the aftermath of the Great Recession). When general fund cash is negative, the state has access to cash for liquidity in its treasury and treasury trust funds, the former of which is subject to legislative appropriation. This cash is held in the custody of the state treasurer, who invests it on a comingled basis. As a result of its good access to internal liquidity, the state does not rely on external borrowing for cash flow management. As such, we continue to view the state's internal liquidity sources as sufficient to support its general fund budget operations -- which we anticipate will continue to track an improving trajectory along with state revenues and the economy more broadly.

Audited financial performance

The state has a strong track record of maintaining good reserves, but the recession took its toll. As of June 30, 2010, the state's general fund unreserved fund balance on a Generally Accepted Accounting Principle basis stood at just $302 million, or 1.2% of expenditures. But as of the end of fiscal 2014, the state's general fund assigned and unassigned fund balance (under the Governmental Accounting Standard Board Statement 54 presentation) was much stronger, at $1.2 billion or 4.65% of expenditures. During expansionary phases of the economic cycle, the state consistently returns operating surpluses and good reserve positions. State authority to defer payments, borrow from the treasury and treasurer trust funds, and issue cash flow notes, if needed, all serve as contingency liquidity measures, but the state managed through the Great Recession without taking these steps. The absence of a formal policy for the state's minimum budget reserve level allows for low balances to persist through protracted periods of economic and revenue softness.

The state's reliance on retail sales and business and occupation (gross receipts) taxes for a combined 64% of general fund tax revenues (on a budgetary basis) typically affords more revenue stability than other states enjoy because many of them rely on personal income tax revenues. Spending priorities are regularly evaluated through the state's "priorities of government" approach to zero-based budgeting. Independent and formal revenue and caseload forecasts inform budget decisions, and political leaders have demonstrated a willingness to make difficult adjustments when necessary.

On a scale ranging from 1 (strongest) to 4, we have assigned a score of '1.6' to Washington's budget performance. The change reflects our view of the state's strong demonstrated commitment of consistently contributing to its budget stabilization account pursuant to its policy.

Debt And Liability Profile

As noted, Washington's debt is moderately high by several of our measures. Debt pay down is average, in our view, with 44% of outstanding principal amortized over 10 years. Gross GO and lease appropriation-backed debt service is moderate, at 5.46% of the funds' expenditures from which it pays debt service. Portions of the state's debt are funded from self-supporting or reimbursable sources, however. Considering just the general fund, adjusted for these offsetting revenues, we estimate that debt service was 6.4%, moderate in our view. We anticipate that continuing transportation needs, including two major urban highway projects, will likely translate into continuing GO issuance in the next two to three years. The state currently projects that it may issue approximately $690 million in new GO and MVFT GO bonds in January or February 2016. The state also estimates that it may issue around $219 million in COPs through the fall of 2015.

Pension plans are well funded

Long-term state liabilities include those related to the state's pension system and retiree health care. The state's fiscal 2015 financial report, which has yet to be released, is expected to show (preliminarily) an aggregate funded ratio across the state's 12 pension plans of 87% using the entry age normal methodology and an assumed discount rate of 7.8%.

Based on the most recent comprehensive annual financial report, in 2014 (reflecting actuarial data through fiscal 2013 and with liabilities calculated on an entry age normal basis), the state's total UAAL for its 12 pension plans was $8.7 billion, equal to $1,232 per capita (using 2014 U.S. Census population figures), which we view, qualitatively, as stronger than average. Similarly, the unfunded liability is 2.5% of total personal income, which we also view qualitatively as better than average. The state's contributions to the pension funds equaled $507 million in fiscal 2014, equal to a low 2.04% of general fund expenditures. Although the state makes its required contributions to each plan as set forth in the plans' respective funding policies, contributions tend to fall short of the ARC. For fiscal year 2014, the total contributions from the state and other plan participants equaled 73% of the ARC.

OPEBs are funded on a pay-as-you-go basis

The state's OPEBs produce an implicit liability by allowing retired employees to purchase health, life, and vision insurance in the same pool as current employees at a subsidized rate. The explicit benefit subsidizes retired members' monthly premiums for enrollment in Medicare Parts A and B. On an actuarial basis, the state's portion of the AAL made up $3.71 billion of the total, and the annual OPEB cost was $358.4 million in fiscal year 2014, according to the state's fiscal 2014 audited financial statements. The state contributed $77.7 million for current pay-as-you-go expenses for retiree benefits, equal to less than 1% of annual general fund expenditures that same year. We understand that the state does not plan to fully fund the ARC for the foreseeable future.

On a scale ranging from 1 (strongest) to 4, we have assigned a score of 2.4 to Washington's debt and liability profile.

Related Criteria And Research

Related Criteria

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Special Tax Bonds, June 13, 2007
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006

Ratings Detail (As Of September 18, 2015)		
Washington certs of part (Washington St Dept of Gen Admin Tacoma Co-Location Proj) dtd 12/01/1996		
Long Term Rating	AA/Stable	Affirmed
Washington motor vehicle fuel tax GO bnds ser 2015C due 02/01/2040		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of September 18, 2015) (cont.)		
Washington motor vehicle fuel tax GO rfdg bnds ser R-2015F due 07/01/2033		
Long Term Rating	AA+/Stable	Affirmed
Washington motor veh fuel tax GO rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed
Washington motor veh fuel tax GO rfdg bnds ser R-2013B		
Long Term Rating	AA+/Stable	Affirmed
Washington mtr veh fuel tax go bnds ser 2004C dtd 08/06/2003 due 06/01/2009-2030		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington mtr veh fuel tax GO bnds ser 2013B-1&2 due 08/01/2042		
Long Term Rating	AA+/Stable	Affirmed
Washington mtr veh fuel tax GO bnds ser 2014E due 02/01/2039		
Long Term Rating	AA+/Stable	Affirmed
Washington mtr veh fuel tax GO bnds (SR-520 Corridor Program -Toll Rev) ser 2012C dtd 10/31/2011 due 06/01/2017-2033 2041		
Long Term Rating	AA+/Stable	Affirmed
Washington mtr veh fuel tax GO rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed
Washington various purp gen oblig bnds		
Long Term Rating	AA+/Stable	Affirmed
Washington various purp GO rfdg bnds ser R-2014A due 07/01/2020		
Long Term Rating	AA+/Stable	Affirmed
Washington various purp GO rfdg bnds ser R-2015C due 07/01/2031		
Long Term Rating	AA+/Stable	Affirmed
Washington var purp GO bnds ser 2007F dtd 05/30/2007 due 07/01/2008-2029 2032		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington var purp GO bnds ser 2014D due 02/01/2039		
Long Term Rating	AA+/Stable	Affirmed
Washington var purp GO bnds ser 2015A-1 due 08/01/2039		
Long Term Rating	AA+/Stable	Affirmed
Washington var purp GO bnds ser 2015A-2 due 08/01/2039		
Long Term Rating	AA+/Stable	Affirmed
Washington var purp GO bnds ser 2015B due 02/01/2040		
Long Term Rating	AA+/Stable	Affirmed
Washington var purp GO rfdg bnds ser R-2013C		
Long Term Rating	AA+/Stable	Affirmed
Washington var purp GO rfdg bnds ser R-2015A due 07/01/2026		
Long Term Rating	AA+/Stable	Affirmed
Washington var purp GO rfdg bnds ser R-2015E due 07/01/2033		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of September 18, 2015) (cont.)		
Washington var purp GO rfdg bnds ser R-2015G due 07/01/2032		
Long Term Rating	AA+/Stable	Affirmed
Washington GO		
Long Term Rating	AA+/Stable	Affirmed
Washington GO bnds		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington GO bnds ser 2013T due 08/01/2018		
Long Term Rating	AA+/Stable	Affirmed
Washington GO bnds ser 2015T-2 due 02/01/2022		
Long Term Rating	AA+/Stable	Affirmed
Washington GO bnds (Motor Vehicle Fuel Tax) ser 2004B dtd 08/06/2003 due 07/01/2004-2028		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington GO comp int bnds ser 1999S-2 dtd 05/20/1999 due 01/01/2017-2019		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington GO Mtr Veh Fuel Tx		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington GO & mtr veh fuel tax (MBIA/National)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington GO (wrap of insured) (AMBAC) (ASSURED GTY - SEC MKT)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington GO (wrap of insured) (FGIC & AGM) (SEC MKT)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington GO (Motor Vehicle Fuel Tax)		
Long Term Rating	AA+/Stable	Affirmed
Washington Various purp GO bnds ser 2007C dtd 02/06/2007 due 01/01/2008-2032		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington Washington St Var Purp #2 dtd 2-1-83		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington certs of part rfdg (Dept of Ecology St Office Bldg Proj) ser RE-2003-B		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Washington GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Aberdeen, Washington		
Washington		
Aberdeen (Washington) spl rfdg rev bnds (Stafford Creek Corrections Ctr) ser 2009		
Long Term Rating	AA/Stable	Affirmed
FYI Properties, Washington		
Washington		
FYI Properties (Washington) Lease rev bnds (State Of Washington Dis Proj) ser 2009		

Ratings Detail (As Of September 18, 2015) (cont.)		
Long Term Rating	AA/Stable	Affirmed

Many issues are enhanced by bond insurance.